

## **Developing international business relationships in a Russian context**

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# Developing International Business Relationships in a Russian Context

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# **Developing Business Relationships in a Russian Context**

## **Abstract**

The collapse of the former Soviet Union has opened up a wealth of business opportunities for companies seeking new markets in the Russian Federation. Despite this, firms intending to do business in Russia have found themselves hampered by cultural differences in business practices and expectations. As Russia integrates into the global economy, understanding such practices and the managerial mindset of business people is crucial for managers who hope to navigate Russia's complex markets. This study draws on the trust literature and adopts quantitative tools to deconstruct the Russian 'Sviazi' system of social capital business networking. We develop a model isolating three dimensions of Sviazi: one an affective or emotional component; the second, a conative component; and the third, a cognitive component. The model provides a useful guide for helping foreign firms to succeed in Russia, while also serving as a basis for further research in the field.

**Keywords:** Russia, Sviazi, Social Networks, Business Models, Trust

## **Introduction**

Ever since the breakup of the former Soviet Union, a growing number of firms have attempted to take advantage of the numerous business opportunities that have emerged in Russia. As a global political power with over 150 million potential customers and a vast array of natural and human resources, the Russian Federation is clearly an attractive place for firms with global ambition. However, despite this, firms seeking business opportunities have often found themselves hampered by cultural differences surrounding their expectations and how business is practiced. To some degree, such difficulties may stem from unethical and corrupt business practices that tend to occur in the market (Apressyan, 1997; Beekun et al., 2005; Estrin and Prevezer, 2011).

The major emerging economies in the twenty-first century, including Russia and the other BRIC countries (Brazil, India and China), have environments where legal systems and enforcement mechanisms tend not to be efficient by most modern standards (Berger, 2014; McCarthy et al., 2012; Wedel, 2003). Business models in these societies are frequently based on inter relationships between firms. However, the nature of such inter relations may vary, due largely to the different contextual setting (Michailova and Worm, 2003). Examples include kwankye in Korea (Alston, 1989), jeito in Brazil (Amando et al., 1991), Jaan-Pechaan in India (Chakraborty, 1997), wasta in Arab countries (Berger et al., 2015) and guanxi in China (Barnes et al., 2011; Berger and Herstein, 2012).

In 2013, Russia was ranked 127th out of 177 countries on the Transparency International Corruption Perceptions Index (lower rankings mean greater corruption), and 92nd out of 189 countries on the World Bank's Ease of Doing Business Index (World Bank Report, 2014). Yet beyond outright corruption, firms typically encounter a number of psychological, cultural and cognitive challenges when attempting to penetrate the Russian market (Bahry et al., 2005; Jansson et al., 2007). While businesses often easily eye the potential of the Russian market, they tend to know much less about Russian managerial values and strategy (Puffer and McCarthy, 2011; Robertson et al., 2003; Vernard, 2009).

Historically, under the Soviet system, for simply doing their jobs bureaucrats expected payment in the form of Sviasi, be that money or some kind of non – financial incentive (Sidorov et al., 2000; Viega and Yanouzas, 1995). While risk taking and

independent thought were discouraged or even punished, compliance with rules and regulations was the norm and rewarded accordingly. As a result, people ceased to rely on the judicial system or written contracts. To circumvent official procedures, individuals often turned to informal social based networks, such as *Sviazi* to acquire goods and services that were in short supply (Weder, 2003).

The quality of the legal framework within Russia is the key to understanding contemporary business practices and the persistence of *Sviazi* in this market. Often for business to thrive, there needs to be a set of laws that regulate activities, create boundaries that differentiate acceptable from non-acceptable behavior and establish ethical frameworks in which business can be conducted (Rehn and Taalas, 2004; Venard, 2009). Moreover, laws are useless if they are not enforced. However, no matter how good they are, failure to enforce them opens the door to opportunistic and unethical behavior (Berger and Herstein, 2012). Historically, the legal system in Russia was rather complex, unpredictable and as earlier highlighted, laxly or subjectively enforced. As a result, firms often abandon formal practice and turn to more informal mechanisms based on social networks (Apressyan, 1997; Chacko and Wacker, 2000; Deshpande et al., 2000; Fey et al., 1999; Linz and Semykina, 2009; Oleinik, 2004).

Russian managers work in an environment where the legal system and its enforcement are unreliable and the sanctity of contracts is often violated (Kuznetov and Kuznetova, 2005; Linz and Semykina, 2009). To conduct business in this environment, firms frequently utilize *Sviazi*, a form of social capital (Apressyan, 1997; Beekun et al., 2003; McCarthy and Puffer, 2008) that represents a system whereby business and economic interactions are embedded in social relationships. Social capital based business networks are often formed and these provide important structural support for business interactions (Fukuyama, 1995; Shrader, 2004). *Sviazi* has important implications for both social capital and trust, as well as for labor markets, consumption patterns, entrepreneurship, resource shortages and the shadow economy to name a few (Ledeneva, 2009a).

There are several key reasons why undertaking this investigation represents a worthy area of research. The first aspect is economic. Despite Russia's takeover of Crimea and Western sanctions, it appears that against most expectations the Russian economy is rapidly recovering. In 2015, the Russian stock market was one of the best

performers on a global scale. After losing nearly half its value against the dollar over the course of a year, the Russian ruble has been recovering. Current interest rates have declined from their post-sanctions peak and the government is now obtaining more revenue than its own expected forecast. Foreign exchange reserves have also increased by around US\$10 billion since their post-crisis low (Powell, 2015).

The second aspect is political. On 4 March 2014, Russia made several moves into Ukrainian territory, which has provided the next stage for Putin to flex greater political power. This came following the August 2008 war between Russia and Georgia. This conflict has shown that building a more productive relationship with Russia may be impossible without closer coordination between America and Europe (Rumer and Stent, 2009). The more recent event surrounding the Ukraine, serves to only increase the strength of Russia as a political entity in the world.

The third aspect relates to the level of corruption associated with Russia. According to Cheloukhine and King (2007), 'top to bottom' corruption networks of organized crime and state intervention or low enforcement have been common for a long time in Russia. It is something that has been embedded in social relations and among citizens, in so much as it is considered a way of life and not a crime. Western managers attempting to obtain a foothold into the Russian market need to better understand how business is undertaken in the country and how to best position themselves or react accordingly (Fay and Shekshnia, 2011).

It seems clear that Western firms investing in Russia can succeed only if the intricate practice of building trust through social networks is understood and managed (Ayios, 2003). Indeed, cross-national differences in managerial values are increasingly recognized as crucial factors that can affect business interactions and success in the global marketplace (Ardicjvili et al., 2012; Elenkov, 1998; Titov, 2013). In such a context, it becomes increasingly crucial to identify which factors can positively and negatively influence trust in a Russian business setting.

Although social capital as a competitive framework for business models has attracted heightened interest among academics in recent years (Ledeneva, 2013; Titov, 2013), Russia's business culture has been given much less attention than, say, China and this is despite the fact that the Russian Federation is a major political, military and economic power, as well as a member of the G8 economic forum. Moreover, studies on

Sviazi have tended to be qualitative in nature and have only been conducted by a limited number of scholars (Michailova, 2003, 2006; McCarthy and Puffer, 2008, 2012; Ledeneva, 2009b; and Deshpande et al., 2000).

While corruption in Russia has received much attention (Vernard, 2009), academic research relating to Sviazi has been impeded by its negative connotations, probably due to a paucity of written sources and reluctance on the part of both authorities and businesspeople to admit to the practice. Equally important, is that Sviazi is often considered a monolithic construct, and scant attention has been paid to its underlying components. As a result, we have little understanding of how Sviazi affects firm performance and indeed how it can be measured.

The purpose of this paper is twofold. First, we aim to elucidate the underlying structure of Sviazi, treating it as a case of social capital based business networks. In this task, we draw for inspiration on the work of Barnes et al., (2011), who similarly deconstructed the Chinese notion of 'guanxi'. Russia serves as a good case study for this purpose for several reasons, not least among them its sheer size, from both an economic and demographic perspective. In addition, the Communist values that held sway during the Soviet period still tend to play an influential role in business interactions in Russia today. These often have a spillover effect on other former Soviet states and countries that were within the Soviet orbit. Finally, ever since the Cold War Russia has attracted the attention among culturally interested scholars and the country remains a source of intense interest today.

Second, we aim to provide businesses with a usable framework in order to be able to better penetrate the Russian market. That is, we aim to illustrate how business interactions in Russia are embedded in well-defined sets of social relationships and how these social interactions are established and maintained. To do this, we draw on survey data from 457 Russian managers of small and medium-sized firms to isolate the dimensions of Sviazi and to show how they are related to satisfaction (at the individual level) and performance (at the firm level). We begin by describing the business environment in Russia. We then describe Sviazi and its uses before introducing the three component constructs that make up our relationship model. We proceed by describing our methodology, present the research findings and discuss the implications of the study for both researchers and practitioners that are seeking to do business in Russia.

## **Conceptual Background**

Outsiders in Russia are quick to notice a cultural tendency to distrust individuals, groups and organizations that fall outside personal social networks (McCarthy and Puffer, 2008). This collectivist mindset can be traced back to pre-revolutionary times, when collective farming was encouraged by the Tsars in an effort to reduce anarchy, minimize natural disasters and enhance productivity. Under Communist rule, the country's leaders stressed the importance of harmony and equality (Michailova and Hutchings, 2006). Bureaucrats were expected to be full-time professionals who made a fixed salary that was disconnected from their performance which led them to search for alternative sources of income i.e., corruption (Ledeneva, 2009b).

Since the fall of the Soviet Union, business interactions in the Russian Federation have remained deeply colored by the patterns of thought and behavior that emerged under Communism (Ledeneva, 2013). Social capital in Russia is based less on the knowledge and ability of managers or workers and tends to focus more on what can be acquired through having connections in the right places. Russia today remains a closed society, tribal in the sense that people prefer doing business with people they know (Ayios, 2003). Individualist traits are considered socially undesirable and in many cases destructive to social harmony. Russian business culture emphasizes values of solidarity and close personal relationships (Apressyan, 1997). Firms are characterized by top-down communication, status symbols for managers and an uneven distribution of power (Schrader, 2004). Managers are expected to look after and protect their subordinates in return for their loyalty. Policies and procedures for virtually every aspect of organizational life are dictated from above, often in the Communist era by officials from within the central government. Russian businesspeople often rely on political influence and social networks to achieve their goals.

In this paper we show how social capital research can be implemented in a Russian context and how practitioners can access such social capital. In network theory, markets are portrayed as a system of associations among a number of players including suppliers, customers, competitors and private and public support organizations (Coviello and Munro, 1995). The significance of networks, and networking, at the industry, firm, group, and individual levels has attracted substantial research attention (Parkhe et al., 2006). According to Elfring and Hulsink (2003), networks and networking are among



the most powerful assets for firms, as they can provide access to power, information, knowledge and capital.

The importance of network theory is often more significant in the internationalization processes of firms, particularly for smaller organizations whose success can ultimately depend on relationships with others as well as for Western firms that aspire to enter emerging markets (Bridgewater, 1992; Hoskisson et al., 2000). In such markets, networks are frequently based on informal institutions and formed in response to market imperfections. Networking ties in emerging markets are therefore important in providing firms with access to resources, information and knowledge, markets and technology (Yiu and Lau, 2008). According to Boisot and Child (1996) there are often other perceived benefits associated with establishing networks in emerging markets, including access to non-tradable political clout and governmental protection. As network based exchange is often a significant characteristic of emerging economy markets, networking capabilities may be a crucial asset for business (Peng and Heath, 1996). Moreover, since local organizations possess such networking competences, they become interesting partners for foreign investors (Knock and Guillén, 2001).

Network theory tends to refer to two kinds of relational ties i.e., strong and weak. Strong ties relate to the exchange of fine-grained information and tacit knowledge, trust-based governance and resource cooperation (Starr and MacMillan, 1990; Rowley et al., 2000). In contrast, weak ties can be beneficial as they provide access to novel information since they offer linkages to divergent regimes of the network (Granovetter, 1982). According to Granovetter (1973, 1982), the differences between strong and weak ties can be explained by three factors. The first is the frequency of contacts. The second relates to reciprocal commitments between the relationship actors involved, and the third is the degree of intimacy. Thus, strong ties involve frequent contacts that almost invariably have affective, often friendly overtones and may involve reciprocal favors.

In contrast, weak ties involve infrequent contact, which by nature are episodic and do not necessarily have an affective content (Nelson, 1989). In general, the work of Uzzi (1996, 1997), Hite and Hesterly (2001) and Rowley et al. (2000) shows that both can provide beneficial network outcomes. The two are useful and can contribute to the emergence and growth of organizations, albeit they are advantageous in different ways

at diverse stages of a firm's development (Elfring and Hulsink, 2003). This study furthers this research by building on network theory to develop a relational framework and testing it in a Russian context.

Despite the importance of networks in emerging markets both for local and foreign firms, there is only a relatively small number of empirical studies on the subject and most research has tended to focus on the function of Asian networks (e.g., Bruton et al., 2002; Lockett et al., 2002; Wright et al., 2002). In general, these studies suggest that networks can substitute formal institutions and influence the behavior of venture capitalists in such countries. Moreover, Batjargal (2003) researched this subject in post-Soviet Russia and found that the higher the level of social capital acquired among entrepreneurs, the greater its impact on firm performance. We further advance on this study by examining the structure and strength of such networks on performance quantitatively.

In a market economy, trust stems from formal institutions, such as the courts, the legal system and from informal institutions, including business ethics (Apressvan, 1997). In most advanced economies, firms tend to have some degree of confidence in and trust the government, regulatory agencies and the judicial system, as well as other formal institutions (Beekun et al., 2003). In Communist Russia, these institutions were and are still weak (McCarthy et al., 2012). In the past, economic decisions were often made by central planners and it was sufficient to send products to a predetermined customer to make a sale.

In order to effectively access the market, individuals had to cement personal relationships with managers in related firms and government, rather than effectively market their goods. Today, in post-Communist Russia, developing personal relationships with government officials still plays a crucial role for gaining access to state property, helping to win contracts and for circumventing direct and indirect taxes (Puffer and McCarthy, 2011). Russia is a low-trust society where formal rules are contradictory and unstable. Law enforcement is seriously lacking, resulting in high levels of business uncertainty (Hofstede, 2006). In this environment, trust is of prime importance and is directed towards business partners that matter, rather than informal institutions. Trust enables firms to cope with uncertainty and ensures stability in the formation of healthy

business relationships (Ayios, 2003). On the other hand, in such a society, the formation of relationships can often start from a rather suspicious attitude (Jansson et al., 2007).

In terms of Hofstede's (2006) cultural scale, Russia is a collectivist country marked by high power distance and respect for well-established social norms. Social exchange theory has been used to characterize the development of commitment and reciprocity, which often forms the basis of economic activity in cases where legal mechanisms are weak and enforcement inefficient (Berger and Herstein, 2012). In most cases reciprocity, which refers to a set of socially established rules that govern exchange often comes into force. Typically, one partner provides a resource to another, obligating the other to return the favor in the future, thus building a certain kind of trust (Barnes et al., 2011). Social capital represents some degree of goodwill that is embedded in social relations that can be exploited in order to accomplish a particular goal (Ayios, 2003). If social capital is unused, it inevitably can become obsolete (Yanitsky, 2011). It therefore serves as a valuable resource that can be nurtured, manipulated and destroyed. Its level in society is path-dependent (Schrader, 2004).

In this paper, we follow Putman (2000) and others in arguing that the so-called low-trust societies are misplaced and they are better characterized by high levels of context-related particularistic trust. We distinguish between people who look outward, beyond their own social networks and those who look inward as depicted in Table 1. The former can be called generalized trusters and these believe that most people share universal values. They are willing to trust outsiders who may outwardly seem quite unlike themselves (Fukayama, 1995; Uslaner, 2002). Particularized trusters meanwhile stick to their own kind. They shun strangers and limit their social interactions to family, close friends and members of their own in-groups (e.g., groups based on religion or ethnicity). They have faith in others as long as they are part of their own social network and consider them to have little control over what happens in society at large (Ayios, 2003).

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Insert Table 1 about here

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Indeed, particularized trust tends to breed suspicion of those people that are unknown (Uslaner, 2002). Putman (2000) claimed that generalized trust helps promote the norms of reciprocity and collaboration that underlie civil society. Generalized trusters more readily play roles in the community, take part in collective action and cooperate with people from different backgrounds. The combination of low generalized and high particularized trust implies fertile ground for exclusionary strategies and the formation of closed social networks. Russia is characterized by low levels of generalized trust, meaning that Russians tend to turn inward and trust members of their own in-groups (Michailova and Worm, 2003; Puffer and McCarthy, 2011). The Russian government's high corruption rankings, its low ratings on measures of democracy since the late 1990s and economic turmoil in recent times have only exacerbated this trend (Koveshnikov et al., 2012; Olenik, 2004).

Trust has been found to play a pivotal role in positively contributing to different types of relational structures, including Arab social networks (*wasta*) and Chinese business relationships (*guanxi*). With an increasing emphasis for firms to seek greater international opportunities, business people are frequently faced with the need to collaborate with new external partners with whom they have had no prior interaction. Making the correct decision regarding the willingness and to what extent it is possible to trust outsiders may play a crucial role in determining success with such international new ventures. However, it seems highly unlikely that the level and structure of generalized and particularized trust is likely to be the same across countries.

Social scientists need to distinguish between the level and scope of trust. While the former is understood as the strength of cooperative norms, the latter relates more to the sphere of actors whom such norms are operative. Firms profit from strong mutual trust, as it can reduce the need to monitor an exchange partner's behavior. It may also influence the decision regarding the adoption of contracts. We argue that generalized trust is a crucial driver of international business performance. Understanding the dynamics of trust enhancement is therefore imperative for management scholars. The major debates surrounding the forms and bases of trust remain elusive, particularly when considering its developmental and nurturing role among exchange parties.

Furthermore, there is a lack of empirical work dealing with trust building in the Russian context. With a growing number of firms aiming to venture into new

international territories, understanding how trust is recognized and preserved across a variety of countries is becoming increasingly important. From this perspective, we advocate that variations relating to trust at the individual level, which describe inhabitants of a country can be ascribed largely to country-level contextual effects. Evidence from studies in related domains, including anthropology and sociology suggest that considerable cross-national differences exist. The relevance of such cross-national investigations is further apparent among researchers and practitioners relating to the mounting attention aimed at understanding how such national-level characteristics sway individual-level beliefs, attitudes and values.

The importance of trust and networking in Russia seem to be very fundamental for state-owned and privatized enterprises. Since Russia is characterized by an uncertain institutional environment and a somewhat unreliable legal system, trust in Russia is often placed on individuals rather than institutions, therefore personal relationships are heavily relied upon and often prevail (Afanassieva, 2015). The significance of nurturing networks of personal relationships has a long history associated with the foundation of business, which was not only an important part of Soviet reality, but of tsarist Russia as well (Ledeneva, 1998). Such networks of personal relationships with members of the political elites still play a significant role for both domestic companies and foreign investors alike (McCann, 2004). Whilst previously local Russian companies or foreign enterprises could nurture trust by using their links from the previous Soviet period, for example, Afanassieva (2015) discovered that the success of Russian companies ultimately depend on their ability to manage and develop new commercial relationships beyond Russia.

We purposely aim to fill this void in the literature by exploring the country level elements of firms' generalized and particularized trust building structures. This study contributes to the literature by extending cross-cultural research on trust via focusing on outsider group trust, which appears to be particularly important and relevant in international business. By developing a cross-level model for investigating outsider group trust, we deepen the debate surrounding this subject. Although we posit specific country level drivers of, and impediments to outsider group trust in the context of Russia, our constructs are not restricted to any specific country and can easily be applied

in other international markets, as previously demonstrated in Chinese and Arabian contexts.

### **Social Business Networks in Russia: The Case of Sviasi**

Russia's transition from a planned to a market economy in the 1990s is often presented as a withdrawal of governmental intervention in which market forces were allowed to shape the economy (Hendley et al., 2000). The economic reforms in Russia have been described as "shock therapy" by many academics and practitioners, as privatization, liberalization and democratic reforms were all introduced simultaneously and implemented within a short time span (Buck et al., 2000). The quick introduction of these economic, legal and political changes without first creating an appropriate and enforceable institutional and legal infrastructure forced Russian firms to adapt to the new market environment in different ways. Many business leaders chose means that were considered to be unethical by Western standards to secure an economic foundation in this new environment (Venard, 2009; Wedel, 2003). These oligarchs, as they were known, drew on social networks developed in the Communist period i.e., Sviasi to gain access to privatized state property, obtain government favors and to generally position themselves above the law when accruing personal fortunes (Puffer et al., 2010).

Sviasi is defined as a social network that involves giving and receiving favors in order to get things done or to obtain access to funds or state property (Ledeneva, 2009a; Rehn and Taalas, 2004; Sidorov et al., 2000). The term may derive from the Yiddish word *Sviasi*, meaning a list or a blank note. In its Polish Yiddish usage, it refers to "someone who provides an umbrella or a cover" (Vasmer's Etymological Dictionary). A second definition of *Sviasi* refers to minor criminal offenses, such as petty theft (Puffer and McCarthy, 2011). A related word *Sviazinoy* means "criminal" or "belonging to the criminal subculture." In the jargon of Russian thieves of the 19th and early 20th centuries, Sviasi implied having connections with useful people (Kurilla, 2002). In the 20th century, use of the word changed from Blat - that focused on survival in the Communist era; to Sviasi in the post-Soviet era, which extended beyond the criminal world, thus allowing researchers to apply the concept to analyze Soviet society at large (Michailova and Worm, 2003; Rehn and Taalas, 2004; Ledeneva, 2009a).

Under the Soviets, Sviasi was recognized as a social mechanism that supplemented the rigid economic system of the planned Communist economy (Ledeneva, 2009a). The Sviasi model of exchange was based on an ability to exploit governmental resources or connections, so as to provide access and resolve problems particularly associated with scarce resources during the Communist era. As different personal social networks grew and coexisted, most products and services could be obtained through a skillful manipulation of Sviasi (Rehn and Taalas, 2004). The Sviasi system was seen as an indispensable set of practices that enabled the Soviet system to function by subverting it (Sidorov et al., 2000). A key figure in Sviasi exchanges was a "talkachi" i.e. an intermediary who used his social networks to secure the interests of the people he represented (Filatov, 1994).

Today, when Russia's commodity and capital markets function at least somewhat efficiently and access to services and goods is readily available, Sviasi is often considered as an unethical or illegal access route to state property, cash or even a well-paid job (Ledeneva, 2009a). In some respects, Sviasi refers to activity in which one might engage to compensate for the institutional void left as a result of the rapid transition from a planned to a market economy. Sviasi is also utilized in areas such as creative accounting and tax evasion. The word lacks the moral quality of the corresponding Chinese word for social networks - 'guanxi', albeit the two share some inherent attributes (Hutchings and Michailova, 2004).

Although such social based networks were initially researched in the academic literature over fifty years ago (Berliner, 1957), modern research on Sviasi appears significantly qualitative in nature (Filatov, 1994; Puffer and McCarthy, 2011). In general, research has been conducted in five main areas: sociology, business ethics, management, economics and history. From the *sociology realm*, there is a particularistic way of thinking behind Sviasi. The premise being that in Russia there tends to be a greater emphasis on relationships than rules. Particularistic cultures often focus on the exceptionality surrounding present circumstances, with members of these societies having strong tendencies to divide people into two categories, i.e., those they know, who they can trust and those who are outsiders that could be hazardous (Michailova and Worm, 2003). Although in-group network relationships are very intimate, trust towards

strangers is typically low. Puffer and McCarthy (2011) suggest that Russians feel they should assist their colleagues both from a social and moral point of view.

From a *business ethics realm*, researchers have examined ethical ideologies and firm practices from a Russian management perspective (Robertson et al., 2003); the ways in which Russian employees perceive ethical climates (Deshpande et al., 2000) and the apparent relationship between success and ethical behavior in business firms (Jaffe and Tsimerman, 2005). Compared with other Western nations, Russians were found to be less ethical and managers in Russia may not necessarily adapt an ethical stance in their business dealings (Jaffe and Tsimerman, 2005).

From the *management realm*, most research has tended to focus on identifying differences between Russian and U.S. managerial cultures: namely the prevailing relationship between individuals and collectivity; the extent to which less influential members of firms and institutions accept and anticipate that power is disseminated unequally; tolerance for uncertainty and ambiguity; and orientation toward the use of political influence (Puffer and McCarthy, 1995; Elenkov, 1998; Chako and Wacker, 2001). From the *economic realm*, research has focused on new market reforms and how such movement has affected the Russian economy, particularly social networks, gift giving and mutual benefits (Oleinik, 2004; Puffer et al., 2010). The findings from these studies suggest that since Sviasi has historical roots, the shift from socialism to capitalism will not fundamentally change the nature of how business is undertaken in a Soviet context.

From the *history realm*, research has examined the historical roots of Sviasi, which originally had a negative connotation relating to criminal activities. Sviasi was mainly practiced in such circles in order to provide protection against society (Ledeneva, 2009b). In the early years of the Soviet Union, the existence of Sviasi implied illegal activities. However, some time later, the term started to become more associated with acquainting, obtaining or arranging a more positive business environment. Although Sviasi can be viewed upon in the context of pre-revolutionary Russian traditions and its association with patronage and self-interest giving, it should also be distinguished somewhat from the types of everyday “fixing” encountered in Russian society pre 1917 due to resource shortages brought about by the Soviet state’s monopoly over the official



distribution of goods and services (Michailova and Worm, 2003). A summary of research in the area is provided in Table 2.

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Insert Table 2 about here

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In this paper we focus on Sviasi from a managerial perspective and we employ both a qualitative and quantitative approach. We took as our starting point the GRX model of Barnes et al., (2011), who deconstructed the Chinese notion of guanxi into three dimensions; namely *ganqing* (an affective element), *renqing* (reciprocity), and *xinren* (personal trust). Drawing inspiration from that study, we conducted in-depth interviews with Russian managers with the aim of deconstructing Sviasi in a similar manner. This qualitative stage of the research produced a similar three dimensional model of Sviasi (described shortly).

In the quantitative part of the research, we surveyed managers of small and medium sized Russian firms so as to identify the salient elements of the model and to determine the relationship between this model and two crucial business outcomes: satisfaction (at an individual level) and firm performance (at the firm level). In the next section we first introduce the deconstructed Sviasi model and its three dimensions. We then describe the predicted relationships between these dimensions, satisfaction and performance before presenting our methodology and findings.

### **Introducing the Sviasi Model**

Sviasi is made up of three closely related trust dimensions: (1) an Affective component (A); (2) Reciprocity, a conative component (R); and (3) Personal trust, a cognitive component (T). The three dimensions correspond roughly to Yen et al.'s (2011) three dimensions of guanxi (*ganqing*, *renqing*, and *xinren*, referring respectively to an affective element, reciprocity, and personal trust).

**The affective component:** This is the emotional or affective component of Sviasi. It refers to affect-based trust i.e., trust that is based on a social or emotional bond, rather

than dispassionate business interests, as in the West. When such an affective component is present, a person is trusted not because of familiarity and knowledge, but because of the common language built. It is therefore something that is founded on emotions rather than ideology. This affective element of a relationship is most likely to develop when interactions between business cohorts occur on an ongoing basis and are professed as positive and even enjoyable by both sides. These ongoing exchanges reinforce the shared social bond.

**Reciprocity or conative component:** (“greasing the palm” - when translated into Russian). This is the conative component of Sviazi. It involves the reciprocal exchange of gifts or favors, a parallel currency in societies where money plays only a modest role. It encompasses the reciprocity variable or the behavioral element of the social/business relationship. The term conative is used here rather than behavioral because while the behavior of gift-giving is an important part of the reciprocal arrangement, the manner of these exchanges i.e. how and when a gift is given is equally as important as the giving element itself. As such, it reflects a kind of empathy. The more frequent the positive outcomes of giving and receiving, the closer two business partners are likely to become. Equally, managers who fail to engage sufficiently with this may be forced to leave the social network and lose their accumulated social capital (Berger and Herstein, 2012).

**Personal trust or cognitive component:** (“trust with closed eyes”). This is the cognitive component of Sviazi, and involves trust based on mutual understanding that is built over time (Berger et al., 2015). Cognitive-based trust may be both particular and general. It is grounded in perceptions that are based on previous interactions surrounding the competence and credibility of the business partner (i.e. he/she will stick to agreements and keep his or her word). This forms as a result of investment in building and maintaining a relationship and it grows as a relationship becomes more firmly established, with positive outcomes for both sides.

## **Satisfaction and Performance**

Satisfaction is the positive affective component ensuing from the evaluation of all characteristics of a firm's working association with the other (Anderson and Narus, 1984). It signifies a central facet in business interactions, whereby the principal party considers the consequence of exchange as rewarding (Ruekert and Churchill, 1984). It has been claimed by Selnes (1988) that satisfaction positively influences business exchange and promotes a constructive environment between parties. This constructive state reinforces the overall aspiration to maintain and nurture a relationship, as well as achieve harmony among the parties involved.

In the current paper, satisfaction is seen as a measure of the degree to which Sviasi and its constituent dimensions are successfully manifested in a given business relationship. Put differently, it is based on the degree to which the dimensions of Sviasi meet the shared expectations of the partners to a given exchange (Anderson and Narus, 1990; Barnes et al., 2011; Gustafsson et al., 2005). We argue that when firms do business in Russia, high levels of satisfaction with their business relationships i.e. high levels of Sviasi (as deconstructed in the concept) are key to leveraging performance advantages by improving sales, market share and profitability. The concept is outlined in Figure 1.

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Insert figure 1 here

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## **Method**

### **Procedure and Sample**

The sample in this study was drawn from a wide range of small and medium-sized enterprises (SMEs) collected from a database maintained by the Russian Ministry of Industry and Trade. A two-stage research approach was employed. In the first stage, the model and questionnaire was created based on the GRX model (Yen et al., 2011). Then the questionnaire was translated into Russian and back translated in order to verify its etymological equivalence. At that point, in-depth interviews were conducted with twenty

managers with the purpose of collecting qualitative data that could be used to adjust the questions to suit the Russian context and improve the instrument's clarity.

The twenty managers interviewed were selected from the database of SMEs based on existing social networks known to one of the researchers. As Russian culture tends to be low in generalized trust and individuals are wary of questions related to business, institutional relations (such as tax issues) and politics, we took care to inform respondents that their comments would remain anonymous and that the study was solely for academic purposes. Each interview was conducted in Russian by a native speaker. The respondents by and large were unwilling to have the interviews recorded, wished to remain anonymous and by and large did not want their comments being cited or appearing in publications.

The principal aim at this preliminary stage was to explore the importance of Sviazi in everyday business activity in the Russian context and ultimately provide insights for international firms entering Russia on prevalent business structures. We raised issues surrounding the concept and had open discussions aimed at better understanding Sviazi. We discovered that respondents were adamant that it was the only way to succeed in Russian business. This was highlighted by the following quote from one of the respondents who was happy for us to quote him in explaining the importance of Sviazi:

*"Sviazi is always going to be present in Russia because it is rooted in our business culture. You know that most of us come from Communist backgrounds based on Sviazi. So if you want to succeed you need Sviazi with government officials, suppliers and customers in order to get things done and receive payment at the end of the day.... I don't think it will ever go away. We use it in everyday life, not only business".*

Among the twenty respondents, pretty much all of them felt that Sviazi was considered essential in order for business relationships to progress in a Russian context. Hence, there was a real need to nurture it. The reason for this stemmed from the requirement that business should be built on personal ties that are ingrained in particularized trust among participants. It is interesting to note that respondents were intrigued by our research subject and our intention to measure such items quantitatively, as it generally has not been empirically examined to this extent in a Russian setting.

In the second stage, the survey was distributed to 950 managers of SMEs drawn from the database mentioned previously. Because of the culturally ingrained reluctance among Russian managers to take part in surveys, a native Russian speaker telephoned each manager to explain the purpose of the investigation, guarantee anonymity and construct rapport intended at increasing their willingness to participate. For those willing to participate (457 managers in all), a meeting was scheduled and a Russian-speaking researcher visited the firm to conduct the survey. As in the first stage, each interview was conducted in Russian and the interviewer noted the respondents' answers. No interviews were recorded.

Ahead of asking individuals to participate in the survey, a focal supplier firm must be identified so that each respondent could focus their response based on this particular relationship. To avoid selection bias, respondents were asked to focus on their fourth-largest importer (in terms of unit sales volume) that originated from an Anglo-Saxon country i.e., typically from North America, the UK or Ireland, Australia or New Zealand). We used the fourth most significant because most business executives often tend to view their first and second largest suppliers as their 'best' and consider their fourth-largest foreign suppliers as being more 'typical' (Bello and Gilliland, 1997). We followed the suggestions of Armstrong and Overton (1977) by comparing those who responded early to our request for an interview with late respondents. Our findings did not reveal any significant differences, suggesting that non-respondent bias is not likely to be a problem associated with the data.

## **Measures**

The survey comprised of 31 questions in total, each with a seven-point Likert scale anchored from 1 = "strongly disagree" to 7 = "strongly agree." Questions 1-7 measured the extent to which managers felt their relationship with the focal firm reflected the affective component (A); questions 8-13 measured the conative component (R) and questions 14-20 focused on the cognitive component (T). Satisfaction was captured by six items (questions 21-26), and performance by five items focusing on cost savings, profitability, sales success and market share (questions 27-31).

The affective component of Sviazi was adapted from the initial work of Mavondo and Rodrigo (2001) who created five items to capture the extent of social connections in the relationship. Subsequently we adopted the scale of Yen et al. (2011) who added two further items to Mavondo and Rodrigo's scale i.e. the feeling of brotherhood and the willingness to help out as our final seven-item Affective scale. The construct of trust was developed through capturing seven items of personal trust i.e., frankness, honesty, openness, benevolence, caring, trustworthiness, as well as general trust which were initially taken from Doney and Cannon (1997) and further operationalized in an international business context by Yen et al. (2011). The reciprocal or conative component of Sviazi was taken from Mavondo and Rodrigo (2001) who used five items to measure reciprocity. We also absorbed a further sixth item into our instrument based on Yen et al. (2011) to capture a buyer's willingness to grant a favor.

We operationalized satisfaction drawing on the work of Kumar et al. (1992), Baker et al. (1999) and Cannon and Perreault (1999), to measure satisfaction in the relationship, as perceived among the buyer. Items included the general satisfaction associated with the buyer, happiness relating to how the buyer felt of the supplier, as well as the possibility of the buyer wanting to work with the same supplier, should they have the chance again.

Finally, we measured performance with a five item scale adjusted from Moorman and Miner (1997), Hewett and Bearden (2001) and Lee et al. (2004). We drew on the success of Barnes et al. (2011) who successfully implemented this scale in a similar relationship context. The initial items measured performance of the buyer–supplier relationship in terms of cost savings, profitability and financial performance. The remaining two measures focused more on the buyer's evaluation of performance relating to the suppliers' product sales and market share. All five scales were reliable, as shown by their Cronbach's alpha coefficients. All the measurement items used can be found in Appendix A.

## **Findings**

In order to perform principle components analysis (PCA) and allow for confirmatory factor analysis (CFA) to follow, the data were randomly split in two halves. The first

half consisting of 223 cases were used for PCA, while the second half consisting of 234 cases were used for CFA.

A PCA was run using 20 items, 7 for (A), 6 for (R) and 7 for (T). The Kaiser-Meyer-Olkin (KMO) value was .82, which exceeds the recommended threshold of .60 (Kaiser, 1960), and the Bartlett's Test of Sphericity was statistically significant ( $p < .001$ ) (Bartlett, 1950). The analysis revealed four factors with eigenvalues greater than 1, explaining 38%, 14%, 9% and 8% of the variance respectively. The scree plot inflection point was after the fourth component, indicating that all four components should be retained (Cattell, 1966). Velicer's minimum average partial (MAP) test, the revised MAP test (Velicer et al., 2000), and parallel analysis (Lautenschlager, 1989) all showed clearly that four components exist. In view of these results, we decided to retain all four components, which are presented in Table 3.

As illustrated in Table 3, all seven A items and one R item (R1) loaded on the first factor, and the remaining five R items loaded on the second factor. Four of the T items (T1, T2, T3 and T5) loaded on the third factor, while the remaining three (T4, T6 and T7) loaded on the fourth factor. We therefore named the factors A, R, TA and TB, where TA reflects particular trust and TB is generalized trust. Generally the model viewed trust as a one concept variable. This worked well in a Chinese context (Barnes et al., 2011), however when analyzing an entirely different culture here, trust statistically was divided into two forms, as depicted in the literature on the structure of trust in the Russian context.

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Insert Table 3 here

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In order to validate the extracted factors, confirmatory factor analysis (CFA) using AMOS was performed on the second half of the data, with all the 20 original items. Given the sample size (234), it was not expected that statistical significance of the

$\chi^2$  test could be easily achieved. Hence, the adequacy of the model specification relied mainly on fit indices, specifically CFI, GFI, IFI and TLI being greater than 0.90, and the RMSEA being less than 0.08 (Byrne, 2001). As a preliminary step, the model was tested for common methods bias using Harman's single factor test (Podaskoff, 2003), which revealed no significant bias. The initial CFA for the 20-item model revealed a poor model fit:  $\chi^2(164)=660$ ,  $p=.000$ ,  $GFI=.796$ ,  $IFI=.809$ ,  $TLI=.777$ ,  $CFI=.807$ ,  $RMSEA=.114$ .

In order to improve the measurement model, it was incrementally modified by first removing items that had the lowest factor loadings (Cadogan et al., 2006) and then allowing residual errors to covariate, thus assuming common-method variance existed. This process continued until adequate fit was achieved. The final model is presented in Figure 2. This model comprises of five items for A (A3, A4, A5, A6, A7), two for R (R3, R4), three for TA (T1, T2, T3), and two for TB (T6, T7). The model produced a good fit for the data i.e.  $GFI=.937$ ,  $IFI=.964$ ,  $TLI=.946$ ,  $CFI=.963$ ,  $RMSEA=.073$ .

As can be seen in Figure 2, covariance between some of the residuals was not zero, implying that some common method variance did exist between the three manifest variables, creating what is known as a correlated uniqueness model (Podaskoff et al., 2003). However, in comparing factor loadings and correlations between the models with and without the uniqueness factor, it was revealed that the differences were all below .10, suggesting that despite the existence of common method variance, the bias was indeed negligible (Meade et al., 2007). It can also be seen that there was no covariance between TA and TB, suggesting that these two variables were not correlated.

The CFA was repeated on the whole dataset, showing only minor changes from the CFA of the second half alone. The Cronbach alpha coefficients for the A, R, TA and TB scales were .88, .83, .86 and .85 respectively. In summary, these findings suggest that the model presented in Figure 2 provides a reasonable representation of the measurement scales used.

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Insert Figure 2 here

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Next, we tested whether the A, R, TA and TB constructs could be explained by a single second-order factor. The results are shown in Figure 3. The fit indices were as follows: GFI=.929, IFI=.958, TLI=.939, CFI=.957 and RMSEA=.073. It should be noted however, that while the second-order factor explained 77%, 40%, and 49% of the variance in the A, R and TA constructs respectively, it explained only 12% of the variance in the TB construct. This suggests that only a small fraction of TB may be part of a common factor. Descriptive statistics and Pearson correlations are shown in Table 4.

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Insert Figure 3 here

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Insert Table 4 here

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In view of the relatively high correlation between satisfaction and performance, we wanted to test for discriminant validity of the constructs. As a preliminary step, we undertook a final CFA and included all six constructs (A, R, T-A, T-B, Satisfaction, and Performance) and the data confirmed a reasonable model fit (CFI=.930; IFI=.931; TLI=.910; GFI=.862 and RMSEA=.080). Next, we used the results of this CFA in order to test for discriminant validity by applying two methods.

First, we employed the average variance extracted (AVE) method (Fornell and Larcker, 1981) and the results are presented in Table 4. As can be seen, the AVE of each of the research variables is larger than the squared correlations between that variable and the other variables, indicating that discriminant validity exists. Second, we used the CFA for testing the discriminant validity (Bagozzi, and Phillips, 1991). The CFA unconstrained model was compared to the model in which correlation between pairs of latent variables were constrained to 1. This comparison revealed  $\chi^2(1)$  ranging between 515 and 736,  $p < .001$  suggesting the models are significantly different and leads us to conclude that the research variables are indeed distinct constructs.

Following on from the results of the CFA, we tested our conceptual model (Figure 4) using structural equation modelling. For that purpose, the two halves of the data were recombined. Overall, the data fits the model well:  $\chi^2(5)=11.3$ ,  $p=.046$ , GFI=.992, IFI=.992, TLI=.977, CFI=.992, RMSEA=.052. We can therefore conclude that Figure 4 provides a useful representation of the pathways posited leading to performance.

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Insert Figure 4 here

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In general, the findings show that Reciprocity (R) is required in order to create Affection (A) and Trust (TA+TB). However, R is fully mediated by the latter two and has no direct effect on satisfaction and performance. The relationships between A and TA on the one hand and performance on the other are fully mediated by satisfaction, while the effect of TB on performance is partially mediated by satisfaction. The positive relationship between TB and satisfaction is cancelled out by the negative relationship with performance. The total effect of TB on performance is non-significant (.02,  $p=.36$ ). All other direct and indirect effects tested significant. We subsequently examined the direct paths from the independent variables to performance and these pathways proved to be non-significant. This confirms that satisfaction serves as a mediator between the initial independent variables and performance.

## **Discussion and Conclusion**

Conducting successful business in Russia is not easy for Western companies and requires a certain degree of sensitivity to its unique business and social culture (Fay and Shekshnia, 2011; Khanna and Palepu, 1997; Koveshnikov et al., 2012). Russia is far from having a fully functioning capitalist system and the state continues to play a major role in governance and business (McCarthy and Puffer, 2008; Estrin and Prevezer, 2011). Although on paper, Russia's official rules and regulations covering corporate governance are comparable to OECD standards its formal governmental institutions are ineffective due to a lack of enforcement (McCarthy et al., 2012). In addition, corruption

is ubiquitous in Russia and is part and parcel of business and the social culture (Apressyan, 1997; Kovesnikov et al., 2012).

Corruption adds to the cost of doing business for outsiders, imposes higher prices for consumers and creates an uneven business environment in which firms need to compete. All these conditions doubtlessly hinder Russia's sustainable economic growth (Sidorov et al., 2000; Wedel, 2003). In this situation, business behavior in Russia is based on personal loyalty, social network allegiances or *Sviazi* (Ardichvili et al., 2012). The *Sviazi* system is also crucial for dealing with Russian tax authorities, customs offices, the banking sector and regional administrations.

One of the outcomes of a low-trust society is that outsiders need to spend considerable time and effort building particularized trust (Kuznetsov and Kuznetsova, 2005). As found in earlier research on Russia, we also discovered that most people are cautious about others who are not part of their social network (Buck et al., 2000; Filatov, 1994; Jaffe and Tsimmerman, 2005). Around 70% of our respondents reported that one must always be careful in dealing with others, especially in business. At the same time, most of our interviewees claimed to trust their in-group to a high degree, suggesting that while generalized trust is low, particular trust in Russia is high. Trust, mutual obligations and social control within business networks helps to reduce high transaction costs and market uncertainties (Schrader, 2004).

The *Sviazi* system, with its elaborate code of gift-giving and mutual obligations, that in some cases can easily lead to corruption has survived well beyond the collapse of the Soviet system and it remains fundamental to the Russian economy (McCarthy and Puffer, 2008; Rehn and Taalas, 2004). In practice, it has also proved itself to be stronger than the more formal market-based institutions set up since the Soviet Union's fall (Estrin and Prevezer, 2011). The environment surrounding favoritism, non-transparency and abuse of power seems to have left most Russian businesspeople locked in their cultural past, leaving them to base their business models on networking and sidestepping formal institutions (Michailova and Worm, 2003; Puffer and McCarthy, 2011).

The literature posits that in developed economies a certain level of cognitive trust serves as a precondition for the development of affect based trust (Beekun et al., 2003). This sequence however seems to be reversed in Russia, where affect based trust is more likely to occur first and may develop eventually into cognitive trust, a sequence that is

also common in many Asian countries, such as China (Jansson et al., 2007; Michailova and Hutchings, 2006). In other words in individualistic cultures, friendship often occurs as a result of successful and rewarding business, while in collectivist cultures, such as Russia, China and India, friendship forms a prerequisite for successful long-term business exchange (Berger and Herstein, 2012).

These observations raise the question of whether and how Russian business networks based on *Sviazi* differ from Chinese networks based on *guanxi*. In Russia, business relationships are more likely to rest on rational, logical calculation and on voluntary individual action. Values such as harmony and balance, which are often so important in mainland China, play less of a significant role. As a result, Russian business networks may be relatively more orientated toward the short term (Buck et al., 2000) an avenue for further research. As a consequence, business arrangements are expected to produce instant results and there are no honeymoon periods for new or recently established networks.

The low need for harmony and balance in the Russian business model, combined with a tendency to blame failure on others, often results in conflict. Russian business networks are characterized by constant suspicion and an expectation of being cheated. Indeed, the owing of favors or some kind of knowledge relating to the other's dealings creates a type of "hostage taking" scenario (Schelling, 1978) leading to a win-win situation when both parties keep their agreements, or lose-lose which is a common phenomenon if one cheats.

This paper has several implications for managers who want to develop business activities in Russian markets. In the Russian business context, economic relationships entail obligation and commitment. International companies that want to succeed in the Russian market need to avoid opportunistic behavior and learn how to maintain good business relations through the use of *Sviazi*. Looking at the deconstructed components of *Sviazi*, we found that the conative element of *Sviazi*, manifested in the reciprocal exchange of gifts or favors had no direct effect on satisfaction or performance. However, it was considered a pre-requisite for business interactions and is therefore important as a catalyst for a business network.

The basic model based on network theory states that the cognitive, conative, and affective components lead to satisfaction and that satisfaction leads to better business

results (i.e. performance). As illustrated by other researchers such as Yen et al (2011) where the model in reality was different as a result of business culture i.e. the cognitive component was not found to affect the business network 'guanxi' directly, we found that in the Russian context similar cultural variations exist. We can see that in Russia, access to social networks starts with building reciprocal relations through some form of hostage taking i.e., strong social networks built on low level trust. Once established, it is then possible to build personal relations i.e., the affective component in parallel to trust i.e., the cognitive component.

Indeed, Sviasi is mainly practiced through a steady exchange of favors between parties. The range of benefits can vary from minor personal articles to business related gifts such as an exclusivity agreement, a discounted price or an additional service. We encourage managers to think proactively how they can provide tokens of respect as well as support to their Russian counterparts where and when needed. A polite and discrete offer of assistance to the right person at the right time reflects both reciprocity and empathy, and can go a long way in the process of building Sviasi. However, firms should also exercise caution, as there is a fine line between gifts and bribery. We advise practitioners to seek clarity on the appropriateness of particular gifts in specific circumstances from Russian business people or advisors on its particularities.

As Russia is a low-trust culture that is aggravated by a weak legal system, it was not too surprising to discover that the emotional attachment inherent in a business relationship is critical for creating satisfaction, which subsequently leads to better performance. Businesses wishing to succeed in Russia need to socialize with their Russian counterparts and attend social events, dine together and even consider taking vacations jointly as a means to strengthen their emotional bonds and build trust as a foundation for business success.

The third element of the Sviasi model is interpersonal trust between business partners. Our findings are in contrast with many Western approaches, where trust rests mainly at the organizational level between two firms (Berger et al., 2015). Trust in the Russian context is evaluated based on the extent to which an individual has kept his or her promises from previous exchanges. Our findings show that particularized trust (TA) has the strongest effect on satisfaction, leading to increased performance. This is not surprising given the inclination to conduct business within one's inner circle. The results

of this study support the findings surrounding the work of Afanassieva (2015) by illustrating that Russia is characterized by an uncertain institutional environment and an inadequate legal framework with unreliable codes of law and ruling courts. Due to relatively underdeveloped systems that govern markets, trust in Russia tends to be placed on individuals rather than institutions and personal relationships are heavily relied upon.

Interestingly, we found a strong negative relationship between reciprocity and generalized trust (TB), suggesting that one does not usually give or ask favors from an outsider. Furthermore, we found that satisfaction levels rise if the exchange partner is generally trustworthy, but high levels of TB are associated with lower performance. This can be explained by the need for extra monitoring when doing business with an exchange partner who is not in one's inner circle. Those contemplating doing business in the Russian context should therefore be sure to honor any promises and agreements made during business meetings and social events to increase the probability of building a fruitful business relationship with their Russian counterparts. Despite the fact that generalized trust in post-Soviet Russia remains low (Mishler and Rose, 1998; Rose, 1998; Hanson, 2002; Shalpentokh, 2006), countries which were once described as 'developing countries' and are now referred to as 'emerging markets', such as the BRIC countries, are realizing that they must open themselves up to do business with other countries and create new international partnerships through adopting greater generalized trust mechanisms (Afanassieva, 2015). In recent times, success in the BRIC countries has often stemmed from engaging younger managers that have experience of Western management approaches. Such individuals often share the belief that most people have common values and are therefore willing to trust strangers who initially may come across as being somewhat different from themselves (Uslaner, 2002).

In brief, along with Brazil, India and China, Russia will continue to represent a significant emerging market for Western firms to grapple with. While some studies have focused on ethical issues surrounding the BRIC countries (Ardicjvili et al. 2012; Alon et al. 2010), it still remains imperative that future research should aim to consider further the similarities and significant differences between the various types of inter relations, including Jeito (Brazil), Jaan-Pehchaan (India), Guanxi (China) and Sviazi (Russia) from the perspectives of Western organizations and international business people.

Moreover, this research has identified a number of avenues for future research consideration. The current research design should for example be tested in other countries of the former Soviet Union, such as Belarus, Lithuania, Moldova and the Ukraine. Since the Russian economy has made significant progress in recent years and became very important for many Western firms, it is also essential to test this research model in the future, to discover if the next generation of Russian managers have changed in terms of their ethical codes of business, or maybe such practice is long lasting and unchangeable in nature.

Additional work should also focus on developing further the measuring scales in order to better capture the constructs in question. A limitation of the findings (as also similarly reported in the original Chinese study by Barnes et al., 2011) is that the reciprocal (R) and generalized trust (TB) constructs both ended up with just two measurement items. Whilst not ideal, the latter may be a result of the initial trust dimension being split into two. However future research could be undertaken of a qualitative nature to look at adding to the initial scales presented and developing these further. Moreover, as the performance items were based on subjective measures, future work could look at capturing more objective data based on company data to help further validate the link between Sviazi and performance.

Further examination is necessary in order to discover whether or not the framework holds across various industries and across firms of different size. As the research was conducted on Russian SMEs, it is interesting to examine if the model holds for large Russian multinational companies and SOEs, as the literature suggests that such organizational forms tend to use Sviazi more extensively. Likewise, future research may look at considering dyadic data in order to draw on comparisons from each side of the relationship i.e., export supplier and import buyer. Furthermore, as Russia is a geographically large country with a dispersed population, further research is called to examine our finding's validity geographically and over different industries. Specifically, it may also prove interesting to test this model in other high context cultures that have similarly weak legal institutional frameworks, such as Brazil and India. It would also be fruitful to incorporate into the model other constructs that may help to shape interpersonal relationships in a Russian context that have been found to play a

significant role in other cultures, such as long term orientation, co-operation, power, dependence and adaptation.

Although it is largely accepted among most Western business people that personal networking in such countries are in general based largely on a collectivist culture; it is vitally important despite such high levels of personal exchange (Michailova and Husted, 2003) that subtle differences between the ways in which such personal networks in emerging countries are recognized and acknowledged, as one size will not fit all. Future research is therefore needed in order to further deepen this subject by researching these different forms of inter relations and drawing meaningful comparisons for assisting business and academic scholars alike as we continue to grapple with such diversity and complexity associated with managing business relationships in international markets.

Also and in addition to the BRIC countries, since increasingly more developing economies from around the world are becoming emerging markets, it is essential for further research to be undertaken in firms from those countries. Such studies will help provide fresh insights surrounding the notion of trust in times of transition and how individuals and organizations manage. It is also imperative to learn more regarding the gap between generalized and particularized trust, as firms from emerging economies seek to do business with developed nations and vice versa. Research in this area will make a significant contribution to both academics and practitioners alike as we continue to grapple with the complexities of managing business relationships on a global scale.

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**Figure 1: Conceptual Framework**

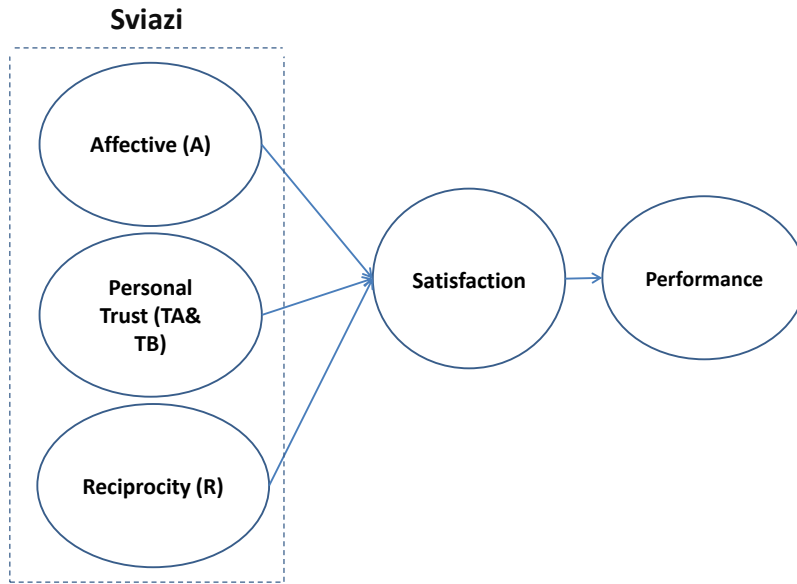
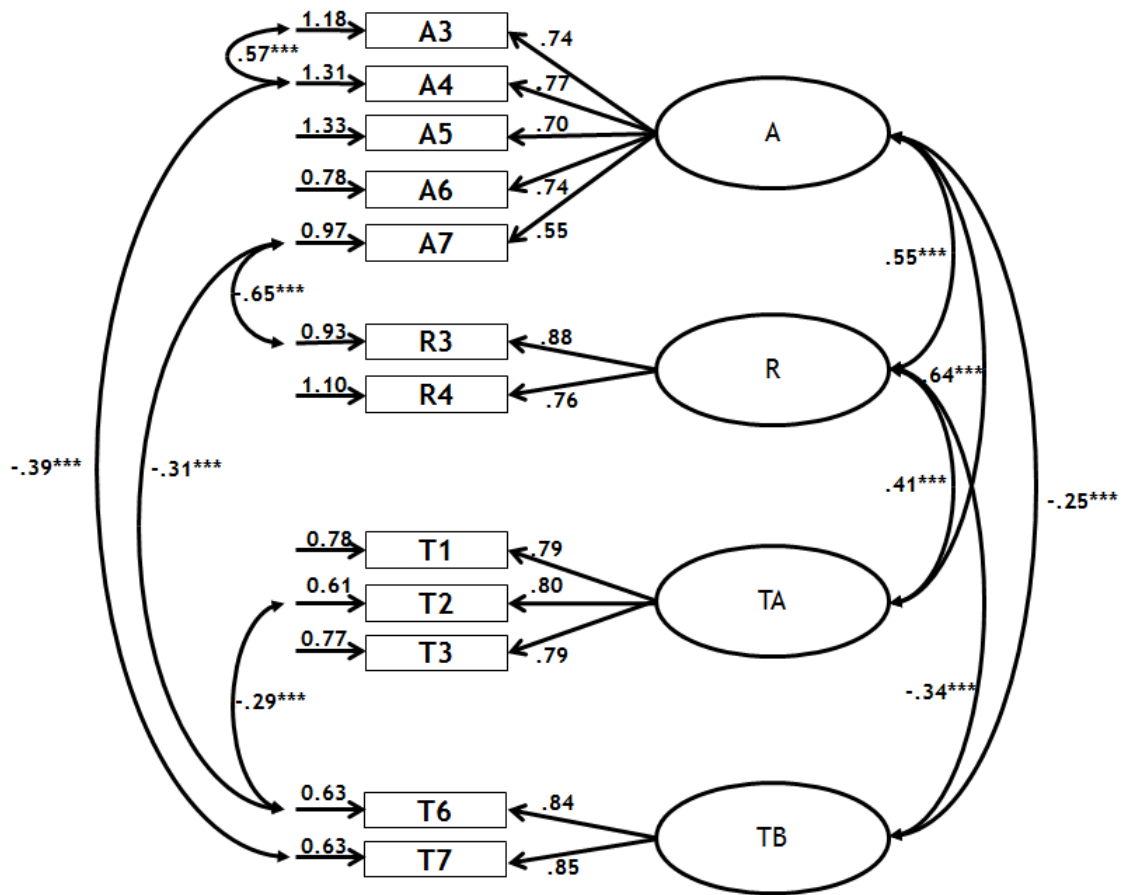


Figure 2: CFA Results



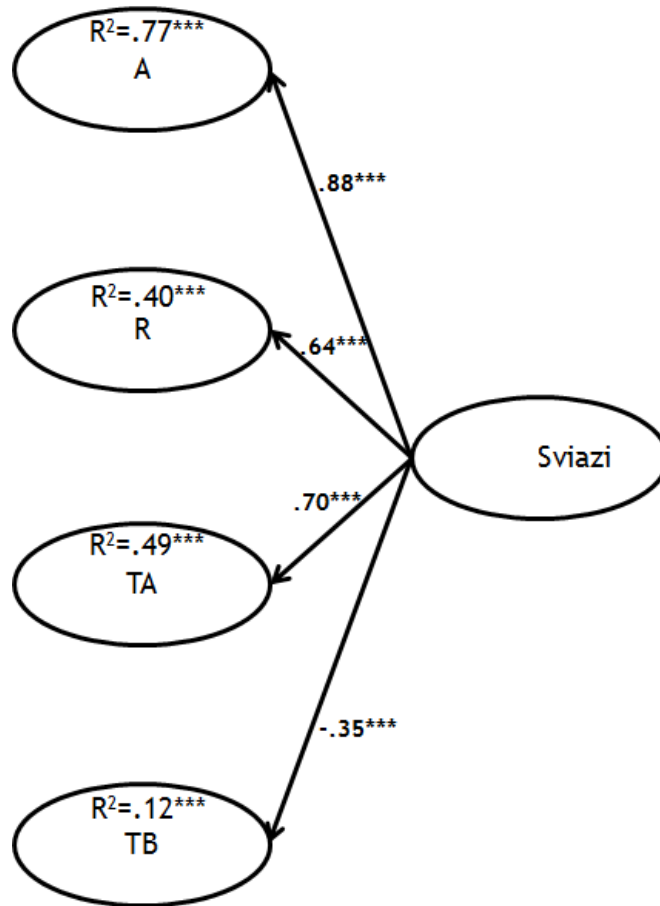
Notes: \*\*\* p<.001

A = Affective

R = Reciprocity

T = Trust

**Figure 3:** Second-Level CFA



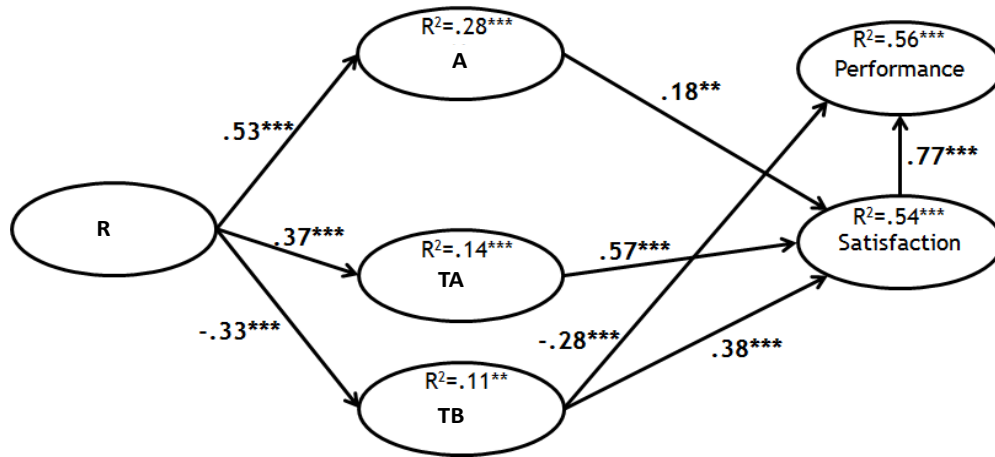
*Notes:* \*\*\* p<.001

**A** = Affective

**R** = Reciprocity

**T** = Trust

**Figure 4: Conceptual Causal Model**



*Notes:* \*\*  $p < .01$ , \*\*\*  $p < .001$

**A** = Affective

**R** = Reciprocity

**T** = Trust

**Table 1: Generalized Vs. Particularized Trust**

	<b>Generalized trusters</b>	<b>Particularized trusters</b>
General belief	A belief that most people share common values and are willing to trust strangers who may outwardly seem quite different from themselves (Fukayama, 1995; Uslaner, 2002).	A belief that relatively few people share common values and there is concern that people outside their own group may not share such values and could even have views at odds with their own (Uslaner and Conley, 2003).
Human nature	They have a positive view of human nature and believe that contact with different groups can be both personally and socially fruitful (Uslaner and Conley, 2003).	They have faith in others but only those from within their own group (Uslaner, 2002; Yamigishi & Yamigishi, 1994).
Types of ties	Weak ties characterized by shallow levels of trust (Granovetter, 1973; Williams, 1988)	Strong ties with deep levels of trust (Granovetter, 1973; Williams, 1988)
Social circles	Joiners who want to readily meet new people. A presumption that strangers can become friends (Uslaner and Conley, 2003).	Tendency to avoid strangers and base social circles on family, close friends and members of their own groups (Uslaner and Conley, 2003).
Participation	More collectivistic in nature and likely to be engaged in activities, such as volunteering and there is a willingness to put themselves into positions where they have direct contact with strangers (Uslaner, 1998).	More individualistic in nature, with a tendency to shy away from wide-ranging civic engagement. Likely to see the world in terms of us and them. When they do participate, they will often focus their efforts on people who belong to the community that they identify with (Uslaner and Conley, 2003).

**Table 2: Research on Sviazi by Academic Field**

<b>Discipline</b>	<b>Definition and Scope</b>	<b>Source</b>
<b>Sociology</b>	Satisfying fundamental needs of the common person in everyday life.	Michailova and Husted, 2003; Ledeneva, 2009a; Judge et al., 2003; Veiga and Yanouzas, 1995; Puffer and McCarthy, 1997, 2011.
<b>Business ethics</b>	Legal and ethical context and its effects on people's daily lives and business activities.	Jaffe and Tsimerman, 2005; Apressyan, 1997; Beekun et al., 2005; Ditrich et al., 2008; Puffer et al., 2010; Hendley et al., 200; Hunter, 2003
<b>Management</b>	Attitudes towards different managerial models.	Chako and Wacker, 2001; Deshpande et al., 2000; Elenkov, 1998; Puffer et al., 1997; Puffer and McCarthy, 1995; Koveshvili et al., 2012
<b>Economics</b>	Effectiveness of social versus market-based systems and the directions of market and economic infrastructure development.	Oleinik, 2004; Koveshnikov et al., 2012; Hunter, 2003; Buck et al., 2000; McCarthy and Puffer, 2008; Puffer et al., 2010.
<b>History</b>	Source, evolution, and effects of Sviazi as a social network on the formation of society and its effects on social and legal business settings.	Filatov, 2004; Michailova and Husted, 2003; Michailova and Worm, 2003; Schelling, 1960; Ledeneva, 2009b.

**Table 3: PCA Results**

Item	Component			
	1	2	3	4
A1	<b>.735</b>	.214	-.081	-.113
A2	<b>.635</b>	.087	.290	.286
A3	<b>.839</b>	.185	.079	.131
A4	<b>.806</b>	.155	.209	-.227
A5	<b>.639</b>	.271	.305	-.021
A6	<b>.635</b>	.328	.354	-.004
A7	<b>.646</b>	.173	.439	.040
R1	<b>.654</b>	.238	.138	-.066
R2	.351	<b>.736</b>	.083	.038
R3	.208	<b>.810</b>	.100	-.194
R4	.280	<b>.779</b>	.078	-.146
R5	.122	<b>.765</b>	.131	-.025
R6	.270	<b>.669</b>	.412	-.058
T1	.275	.183	<b>.789</b>	.239
T2	.276	.080	<b>.853</b>	.056
T3	.193	.064	<b>.812</b>	.021
T4	.147	-.054	.115	<b>.803</b>
T5	-.006	.297	<b>.577</b>	-.263
T6	-.088	-.069	-.113	<b>.835</b>
T7	-.117	-.155	.072	<b>.901</b>
Eigenvalue	7.5	2.8	1.7	1.5
% variance explained	38%	14%	9%	8%

*Note:* Values in boldface are the loaded items on each factor.

**A** = Affective

**R** = Reciprocity

**T** = Trust

**Table 4: Correlation Matrix and Descriptive Statistics**

	A	R	T-A	T-B	SAT	PER
Affective	.58	.28	.37	.07	.18	.15
Reciprocity	.53	.68	.18	.09	.07	.09
Trust-A	.61	.43	.64	.00	.32	.27
Trust-B	-.27	-.31	.00	.73	.00	.00
Satisfaction	.42	.27	.57	.00	.64	.42
Performance	.39	.30	.52	.00	.65	.71
<b>Mean</b>	<b>3.69</b>	<b>4.02</b>	<b>4.66</b>	<b>4.45</b>	<b>4.79</b>	<b>4.31</b>
<b>S.D.</b>	<b>1.64</b>	<b>1.75</b>	<b>1.24</b>	<b>1.37</b>	<b>1.10</b>	<b>1.17</b>

Correlations are below the diagonal, squared correlations are above the diagonal, and AVE – average variance extracted are presented on the diagonal. All correlations except zero are significant at  $p < .001$  level.  $N=457$ .



## Appendix A

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### Constructs and measures

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#### *Affective component (A)*

- A1 – I often interact with my supplier's representative on a social basis outside of work.
- A2 – My supplier's representative and I are able to talk openly as friends.
- A3 – If I were to change this business supplier, I would lose a good friend.
- A4 – I consider my supplier's representative as being almost as close to me as family.
- A5 – I would consider whether my supplier representative's feelings would be hurt before I made an important decision.
- A6 – I have a brotherly feeling towards this supplier's representative.
- A7 – I would try my best to help out this supplier's representative when he/she is in need because he/she is a friend of mine.

#### *Conative component (R)*

- R1 - I feel a sense of obligation to this supplier's representative for doing him/her a favor.
- R2 – I think that "calling in" favors is part of doing business with this supplier's representative.
- R3 – The "give and take" of favors is a key part of the relationship between my supplier's representative and me.
- R4 – I would feel embarrassed if I was unable to provide a requested favor to my supplier's representative.
- R5 – I know that it is bad business not to return favors to this supplier's representative.
- R6 – I am happy to do a favor for this supplier's representative, when he/she requests one.

#### *Cognitive component (T)*

- T1 – This supplier's representative has been frank in dealing with us.
- T2 – This supplier's representative does not make false claims.
- T3 – We think this supplier's representative is completely open in dealing with us.
- T4 – This supplier's representative is only concerned about himself/herself.
- T5 – This supplier's representative seems to be concerned with our needs.
- T6 – The people at my firm do not trust this supplier's representative.
- T7 – This supplier's representative is not trustworthy.

**Satisfaction (S)**

S1 – Our relationship with this supplier has been an unhappy one.

S2 – Generally, we are very satisfied with the overall relationship with this supplier.

S3 – We are very pleased with the working relationship with this supplier.

S4 – We regret the decision to do business with this supplier.

S5 – We are very pleased with what this supplier does for us.

S6 – If we had to do it over again, we would still choose this supplier.

**Performance (P)**

P1 – There were significant cost savings resulting from doing business with this supplier.

P2 – Our firm's profitability has increased because of this supplier.

P3 – The relationship with this supplier helped us perform better financially.

P4 – This supplier's products have successfully achieved sales relative to original objectives.

P5 – This supplier's products have achieved a market share relative to original objectives.

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